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C O N F I D E N T I A L SECTION 01 OF 03 MUSCAT 000972

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SUBJECT: OMAN GRAPPLES WITH TELECOM LIBERALIZATION

Classified By: Ambassador Gary A. Grappo, reasons 1.4 b and d

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Summary  
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[¶1.](#) (SBU) The Omani government is wrestling with the issue of telecommunications liberalization in the wake of the FTA implementation process and a recent managerial shakeup at Omantel, the majority government-owned fixed line monopoly. The changes at Omantel signify the government's willingness to embrace further telecommunications liberalization in the fixed-line sector, and at a quicker pace -- albeit somewhat reluctantly -- than previously anticipated. End Summary.

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Revising Licensing Regulations  
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[¶2.](#) (U) Econoff and Booz Allen Hamilton consultant John Mennel recently discussed the state of Omani telecommunications regulation with Naashiah al-Kharusi, Committee Member (and nominal head) of the Telecommunications Regulatory Authority (TRA), in the context of conducting a study on the impact of the U.S.-Oman Free Trade Agreement (FTA) on Oman's information communications technology sector. Kharusi noted that the TRA, with assistance from a MEPI-funded telecommunications expert, was revamping its licensing criteria to comply with the FTA's provisions. She explained that Class 1 licenses would be granted primarily for infrastructure-based services, whereas Class 2 licenses would be issued to those providers who intend to use the facilities of Class 1 providers. Class 3 licenses would be reserved for private, domestic networks.

[¶3.](#) (SBU) Kharusi expressed her concern that new Class 1 entrants would attempt to "cherry pick" customers. In response, TRA expects that Class 1 license holders will make their services available to the entire public. For international gateway access, Kharusi pledged that "carrier selection would be there," and that the public would have the opportunity to access all providers. She added that since current mobile license operators do not have the stand-alone ability to provide international services, they would have to go through an authorized Class 1 carrier.

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Weak Broadband Penetration  
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[¶4.](#) (U) Kharusi stated that one of the TRA's greatest areas of concern was the weak penetration of broadband services in Oman. To encourage competition within the internet service

provider (ISP) sector, the TRA opened up value-added services; however, in the five months since the opening, the TRA has yet to receive an ISP application, given that prospective companies would have to use the monopoly carrier's infrastructure. Kharusi pointed out that the TRA would intervene in cases where new entrants were dissatisfied with their negotiations with Omantel. For wireless broadband, Kharusi noted that the TRA was working with a consultant to determine how best to proceed in auctioning the available spectrum.

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VOIP OK, If You Have a License  
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15. (U) Kharusi reaffirmed the TRA's commitment to remain technology neutral with regard to permitting VOIP services in Oman, so long as carriers are licensed to offer them and they can be legally intercepted. She added that Omantel is the only company in Oman that currently has the right to offer such services, but chooses not to do so. (Note: For this reason, the TRA recently reissued a stern warning to cybercafe owners that the use of VOIP services by clients is prohibited. End note.) Kharusi continued that because the TRA views VOIP as a voice service, as opposed to a data service, only Class 1 license holders are eligible to offer VOIP.

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Omantel Restructuring  
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16. (U) Developments at the TRA come at a time when the government, a 70% majority owner in fixed-line monopoly carrier Omantel, has announced sweeping changes at the

MUSCAT 00000972 002 OF 003

telecommunications giant in an effort to better prepare the company for competition. On October 3, Minister of National Economy Ahmed bin Abdul Nabi Macki told reporters that the government would seek a "strategic investor" to purchase a portion of its shares. To make the company more attractive to potential investors, Macki said that in addition to merging Omantel and Oman Mobile, which was announced in late September, the government would reduce the tax placed on fixed line and mobile operators from 12% and 10%, respectively, to 7%; clamp down on spending; and replace government representatives on Omantel's board with those experienced in the field. While not publicly announced by Macki, the government also sacked Omantel's chairman, Saud al-Shukaili, although he will remain Secretary General of Taxation at the Ministry of Finance (which Macki supervises). Sultan al-Harthy, Under Secretary for Heritage at the Ministry of Heritage and Culture and former Secretary General of the Tender Board, will become the new chairman of Omantel. An extraordinary meeting of Omantel's General Assembly will convene on November 12 to approve these changes.

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Who Let the Word Out?  
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17. (U) Upstart Arabic daily "Azzamn" claimed in its October 7 edition that several investors with inside information made trades in Omantel stock, which is listed on the Muscat Securities Market (MSM), before the planned changes were made public. Asking, "Who leaked the news?" the paper questioned the transparency of Macki's announcement in light of the Capital Market Authority's promotion of openness in investor relations. "Small investors were cheated," surmised the newspaper.

18. (U) According to statistics from the MSM, Omantel shares rose approximately 3% on September 26, with heavier than usual volume, following the merger announcement. On the day preceding Macki's unveiling of the changes to Omantel, shares

rose 3%, followed by a 10% jump on the date of the announcement, with a significant increase in volume. The Capital Market Authority is now investigating the transactions to see if there were irregularities involved, a move cheered by government-owned Arabic daily "Oman." Omantel's stock continues to rise, spurred by rumors that UAE telecommunications giant Etisalat is interested in becoming the company's strategic partner.

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Power Concentration  
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¶9. (C) The changes at Omantel illustrate the power of the National Economy Minister in shaping the economic priorities of the government. In addition to calling the shots at Omantel, vice the Minister of Transport and Communications, Macki serves as the deputy chairman of the Financial Affairs and Energy Resources Council and chairs the board of directors at Oman Air, as well as at the Oman Shipping Company, which exports Oman's liquefied natural gas. His deputy serves as the chairman of the Oman Electricity Holding Company (which controls nine power plants under government control), the Telecommunications Regulatory Authority, and the Information Technology Authority. Furthermore, Macki works very closely with Commerce and Industry Minister Maqbool bin Ali Sultan, who also serves as chairman of Oman Oil Company, the government investment arm in the development of the Sohar industrial port complex. Macki and Maqbool set economic policy in Oman, enjoying the full confidence of the Sultan.

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Comment  
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¶10. (SBU) The Minister's announcement comes at a time when the government is evaluating how it can best live up to its stated promises of liberalizing the fixed-line telecommunications sector, while at the same time preserving the viability of the incumbent carrier in the face of potentially more efficient competition. As one of the largest employers in the country and a symbol of national pride, there is a considerable amount at stake in determining how fast liberalization will proceed. With the FTA pending, however, the time for Oman to take action may have come quicker than the government had anticipated. Continued work on a new licensing criteria has slowed as discussion on this topic now rests with the Chairman of the TRA.

MUSCAT 00000972 003 OF 003

¶11. (SBU) Embassy contacts at Oman Mobile note that there is considerable disarray within the company following the announcement that it would be merged with Omantel; in fact, key officials in the sales and marketing and human resources departments of the cellular company have resigned as a result of the impending uncertainty. The direction of Omantel's management remains unclear. An energetic Embassy contact at Omantel was forced from his managerial position earlier this year, a casualty of a power struggle between the "old" and "new" guard. A young, U.S.-educated Omani vice president also has been marginalized as a result of this tussle. The government's seeking of a strategic partner may now mean that it is taking a more reform-minded approach to Omantel's development. End Comment.

GRAPPO